

Financial Statements

**CASS COUNTY MENTAL HEALTH
AND ADDICTION SERVICES**

September 30, 2004



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Cass County Mental Health and Addiction Serv		County Cass
Audit Date 9/30/04	Opinion Date 12/22/04	Date Accountant Report Submitted to State: 3/22/05		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Roslund, Prestage & Company, P.C.			
Street Address 308 Gratiot Avenue		City Alma	State MI
Accountant Signature <i>Robert, Prestage & Company, P.C.</i>		ZIP 48801	Date 3/22/05

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September 30, 2004

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INDEPENDENT AUDITOR'S REPORT

Cass County Mental Health And Addiction Services
Cassopolis, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cass County Mental Health And Addiction Services (the Authority), a component unit of the County of Cassopolis, as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements present only the Cass County Mental Health And Addiction Services and are not intended to present fairly the financial position and results of operations of the County of Cass, Michigan, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of September 30, 2004, and the respective changes in financial position and cash flows, when applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 22, 2004 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages I-III, and budgetary comparison information on pages 25-26, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 22, 2004

**MANAGEMENT DISCUSSION
AND ANALYSIS**

Cass County Mental Health and Addiction Services
Financial Statements for the Fiscal Year Ended September 30, 2004
Management's Discussion and Analysis

The management of Cass County Mental Health and Addiction Services (also known as Woodlands) presents the following analysis and overview of financial activities and condition of the organization during the past fiscal year. This presentation is an effort to better inform the reader of the financial statements.

Financial Highlights

Beginning October 1, 2002, the Michigan Department of Community Health contracted with a designated Prepaid Inpatient Health Plan (PIHP) for Medicaid services within a designated geographic region. Kalamazoo Community Mental Services was awarded the contract for the four county area of Kalamazoo, Allegan, Cass and St. Joseph counties. Kalamazoo then entered into a Medicaid sub-contract agreement with each of the three CMHSP's. Separate General Fund contracts were issued by the state to each individual Community Mental Health Service Program (CMHSP).

This contracting arrangement is expected to remain the same through fiscal year 2005.

Overview of the Financial Statements

Two types of financial statements are provided: Government-wide Statements and Fund Statements.

The **government-wide financial statements** are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business. The report includes two government-wide statements that focus on operations of the organization as a whole.

The Statement of Net Assets presents information of all of Woodland's "assets" (what is owned), "liabilities" (what is owed) and the "net assets" (the resources that would remain if all obligations were settled). Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

Cass County Mental Health and Addiction Services
Financial Statements for the Fiscal Year Ended September 30, 2004
Management's Discussion and Analysis

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an accrual basis, meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related movement of cash.

The **fund financial statements** report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. Woodlands, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These funds are divided into two categories: governmental funds and proprietary funds.

Governmental fund statements have a narrower focus than that of the government-wide financial statements in that its focus is on the short-term movement of spendable resources and on the balances of spendable resources available at the end of the fiscal year.

The proprietary fund reported by Woodlands in fiscal year 2003 was a reserve account held as a self-retention portion of risk insurance. This fund was liquidated during fiscal year 2004 due to the unavailability of risk insurance.

Several significant variances between FY 2004 and FY 2003 were revealed in these statements and are shown below:

Accounts	FY 2004	FY2003	Change
Cash and cash equivalents	\$2,279,939	\$1,973,625	\$306,314
Due to other governmental units	504,874	389,573	115,301
Reserve for risk management	-	84,440	(84,440)

Cass County Mental Health And Addiction Services
Financial Statements for the Fiscal Year Ended September 30, 2004
Management's Discussion and Analysis

Woodlands has participated in the Michigan Municipal Risk Management Authority Risk Protection Plan for several years. This is an insurance-type program to cover potential Community Mental Health Board budget overruns. In fiscal year 2004, MMRMA was not comfortable with the new funding provisions as proposed by the state. For this reason, they did not issue coverage agreements for the fiscal year beginning October 1, 2003. Woodlands dissolved the reserve for risk management and transferred the balance to general operations.

The following table presents the adopted budget for fiscal year 2004 compared to actual:

	Budget	Actual	Variance
Revenues	\$9,032,318	\$9,004,789	(\$27,529)
Expenditures	8,909,480	8,863,055	46,425

Actual financial activity for the year resulted in an excess of revenues over expenditures of \$141,734. The transfer in from the risk-retention reserve added \$85,173 to general operation, resulting in an increase to the fund balance of \$226,907.

Future financing

Due to a budget shortfall at the state level, funding is uncertain for fiscal year 2005. For fiscal year 2004, the affiliation reported Medicaid revenue of \$62,051,460 and Medicaid expenditures of \$61,954,494, resulting in a surplus of \$96,966.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

CASS COUNTY MENTAL HEALTH AND ADDICTION SERVICES
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004 AND 2003

	Governmental Activities	
	2004	2003
Assets		
Current assets		
Cash and cash equivalents	\$1,752,418	\$1,473,309
Accounts receivable, net	103,041	141,220
Due from other governmental units	66,270	99,517
Prepaid expenses	72,035	29,579
Total current assets	1,993,764	1,743,625
Noncurrent assets		
Cash and cash equivalents - restricted	527,521	500,316
Capital assets - depreciable, net	146,409	115,972
Total noncurrent assets	673,930	616,288
Total assets	2,667,694	2,359,913
Liabilities		
Current liabilities		
Accounts payable	210,410	206,341
Deferred revenue	6,071	7,990
Due to other governmental units	504,874	389,573
Accrued wages and other payroll liabilities	185,274	168,369
Noncurrent liabilities		
Program advances	-	16,000
Accrued health insurance	392,279	406,884
Compensated absences	128,386	121,071
Total liabilities	1,427,294	1,316,228
Net Assets		
Invested in capital assets, net of related debt	146,409	115,972
Reserved for risk management	-	84,440
Unrestricted	1,093,991	843,273
Total net assets	\$1,240,400	\$1,043,685

The notes to the financial statements are an integral part of this statement.

CASS COUNTY MENTAL HEALTH AND ADDICTION SERVICES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

Functions	Program Revenues			Net (Expense) Revenue and Changes In Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	2004	2003
Governmental activities					
Health & Welfare - Mental Health	<u>\$8,808,807</u>	<u>\$5,797,732</u>	<u>\$3,188,410</u>	\$177,335	(\$55,310)
General revenues					
Unrestricted investment earnings				18,647	18,186
Restricted investment earnings				<u>733</u>	<u>854</u>
Total general revenues and contributions				<u>19,380</u>	<u>19,040</u>
Change in net assets				196,715	(36,270)
Net assets - beginning of year				<u>1,043,685</u>	<u>1,079,955</u>
Net assets - end of year				<u>\$1,240,400</u>	<u>\$1,043,685</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CASS COUNTY MENTAL HEALTH AND ADDICTION SERVICES
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
Assets		
Current Assets		
Cash And Investments	\$1,667,245	\$1,388,869
Due From Other Funds	85,173	-
Accounts Receivable, Net	103,041	141,220
Due From Other Governmental Units	66,270	99,517
Prepaid Expenses	72,035	29,579
Cash And Cash Equivalents - Restricted	527,521	500,316
Total Assets	\$2,521,285	\$2,159,501
Liabilities		
Accounts Payable	\$210,410	\$206,341
Deferred Revenue	6,071	7,990
Due To Other Governmental Units	504,874	389,573
Accrued Wages and Other Payroll Liabilities	185,274	168,369
Total Liabilities	906,629	772,273
Fund Balance		
Reserved For Prepaid Expenses	72,035	29,579
Unreserved	1,542,621	1,357,649
Total Fund Balances	1,614,656	1,387,228
Total Liabilities and Fund Balances	\$2,521,285	\$2,159,501

The notes to the financial statements are an integral part of this statement.

CASS COUNTY MENTAL HEALTH AND ADDICTION SERVICES
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Total fund balance - governmental funds	\$1,614,656
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: Capital assets	523,220
Deduct: Accumulated depreciation	(376,811)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: Accrued health insurance	(392,279)
Compensated absences	(128,386)
Net assets of governmental activities	<u><u>\$1,240,400</u></u>

The notes to the financial statements are an integral part of this statement.

CASS COUNTY MENTAL HEALTH AND ADDICTION SERVICES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDING SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
REVENUES		
State Grants		
State General Fund - DCH Contract	\$1,547,462	\$1,608,284
Adult Benefit Waiver	215,681	-
Inpatient	515,009	599,782
Alzheimer's Grant	61,900	64,000
Title XX	4,756	4,756
Total State Grants	<u>2,344,808</u>	<u>2,276,822</u>
Federal Grants		
Substance Abuse	236,837	226,492
Wraparound Grant	13,000	-
PAS / ARR Grant	12,669	8,312
Total Federal Grants	<u>262,506</u>	<u>234,804</u>
Contributions - Local Units		
Cobo Hall	38,862	35,313
County Appropriations	195,000	195,000
Total Contributions - Local Units	<u>233,862</u>	<u>230,313</u>
Charges For Services		
Medicaid - State & Federal	5,493,555	5,804,652
Client And Third Party Pay	304,177	340,775
Total Charges For Services	<u>5,797,732</u>	<u>6,145,427</u>
Interest And Rents		
Interest	<u>18,647</u>	<u>18,186</u>
Other Revenue	<u>18,647</u>	<u>18,186</u>
Work Activity Center	73,064	86,608
School Programs	-	2,530
Probate Court & Communications Group	7,500	20,500
Donations	39,415	43,512
Court Evaluations	9,495	14,021
HSCC Dues	18,500	23,750
St. Joe Crisis Res.	1,211	240
Job Coaching	27,869	29,578
Other	170,180	114,556
Total Other Revenue	<u>347,234</u>	<u>335,295</u>
Total Revenues	9,004,789	9,240,847

The notes to the financial statements are an integral part of this statement.

CASS COUNTY MENTAL HEALTH AND ADDICTION SERVICES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDING SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
EXPENDITURES		
Health & Welfare - Mental Health		
Personnel Expenditures		
Operating Expenditures	\$4,054,535	\$4,225,306
Capital Outlay	4,714,985	4,965,077
Debt Service - Principal	77,535	28,535
	<u>16,000</u>	<u>-</u>
Total Expenditures	<u>8,863,055</u>	<u>9,218,918</u>
Excess Of Revenues Over Expenditures	141,734	21,929
Other Financing Sources (Uses)		
Operating Transfers In - Internal Service Fund	<u>85,173</u>	<u>-</u>
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	226,907	21,929
Fund Balance, Beginning Of Year	1,387,228	883,305
Prior Period Adjustment	<u>521</u>	<u>481,994</u>
Fund Balance, End Of Year	<u><u>\$1,614,656</u></u>	<u><u>\$1,387,228</u></u>

The notes to the financial statements are an integral part of this statement.

CASS COUNTY MENTAL HEALTH AND ADDICTION SERVICES
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Net change in fund balances - total governmental funds	\$226,907
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: Capital outlay	77,535
Deduct: Depreciation expense	(46,577)
Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	
Add: Reduction to program advances	16,000
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	
Deduct: Transfer in from internal service fund	(85,173)
Add: Interest income from internal service fund	733
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct: Increase in accrual for compensated absences	(7,315)
Add: Decrease in accrual for retirement health insurance	14,605
Change in net assets of governmental activities	<u>\$196,715</u>

The notes to the financial statements are an integral part of this statement.

CASS COUNTY MENTAL HEALTH AND ADDICTION SERVICES
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2004 AND 2003

	Internal Service Fund	
	2004	2003
Assets		
Cash And Investments	<u>\$85,173</u>	<u>\$84,440</u>
Liabilities		
Due To Other Funds	\$85,173	-
Net Assets		
Restricted For Risk Management	<u>-</u>	<u>\$84,440</u>
Total Liabilities And Net Assets	<u>\$85,173</u>	<u>\$84,440</u>

The notes to the financial statements are an integral part of this statement.

CASS COUNTY MENTAL HEALTH AND ADDICTION SERVICES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDING SEPTEMBER 30, 2004 AND 2003

	Internal Service Fund	
	2004	2003
Non-Operating Revenue		
Interest Income	\$733	\$854
Other Financing Sources (Uses)		
Operating Transfer Out - Other Funds	(85,173)	-
Change In Net Assets	(84,440)	854
Net Assets, Beginning of Year	\$84,440	83,586
Net Assets, End of Year	-	\$84,440

The notes to the financial statements are an integral part of this statement.

CASS COUNTY MENTAL HEALTH AND ADDICTION SERVICES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDING SEPTEMBER 30, 2004 AND 2003

	Internal Service Fund	
	2004	2003
Cash Flows From Investing Activities		
Non-Operating Revenue		
Interest Income	\$733	\$854
Cash And Cash Equivalents, October 1	84,440	83,586
Cash And Cash Equivalents, September 30	<u>\$84,440</u>	<u>\$83,586</u>
Reconciliation of Operating Income To Net Cash Provided By (Used For) Operating Activities:		
Operating Income (Loss)	NA	NA

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Cass County Mental Health And Addiction Services
Notes To The Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Cass County Mental Health And Addiction Services (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

In June of 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Authority has implemented the provisions of Statement No. 34 effective October 1, 2002.

Reporting Entity

The Cass County Mental Health And Addiction Services is a component unit and an integral part of the County of Cass, the oversight unit. The financial statements of the Authority should be included in Cass County's comprehensive annual financial report as a special revenue fund.

The Authority operates under the provisions of Act 258 - Public Act of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Cass who meet eligibility and other criteria. As the community mental health services provider for Cass County, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

Cass County Mental Health And Addiction Services
Notes To The Financial Statements

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Authority. *Governmental activities* normally are supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Cass County Mental Health And Addiction Services
Notes To The Financial Statements

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the accrual basis of accounting. The difference between the accrual basis of accounting and modified accrual basis of accounting for these revenues is not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2004 has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial activities of the Authority that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Cass County Mental Health And Addiction Services
Notes To The Financial Statements

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Budgetary Data

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Authority's deposits are in accordance with statutory authority.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Cass County Mental Health And Addiction Services
Notes To The Financial Statements

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both government-wide and fund financial statements.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are recorded as expenditures when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have any infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Cass County Mental Health And Addiction Services
Notes To The Financial Statements

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Equipment and Furnishings	5 – 10
Computers	5 – 10
Vehicles	5

Restricted Assets

Cash has been restricted for future payment of the compensated absences liability and health insurance for retirees. These restricted assets are held in a separate cash account with local financial institutions.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Medicaid Savings, compensated absences and post-employment benefits are examples of the latter.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility. The Authority is not billed for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority.

Cass County Mental Health And Addiction Services
Notes To The Financial Statements

Deferred Revenue

Deferred revenues arise when the Authority receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Grants

Grants from the Department of Community Health (DCH) and other governmental units are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess Of Expenditures Over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2004, The Authority incurred expenditures in excess of the amounts budgeted as shown on the budget comparison schedule in the back of this report.

Cass County Mental Health And Addiction Services
Notes To The Financial Statements

3. DETAIL NOTES ON ALL FUNDS

A. Cash And Investments

At September 30, the carrying amount of the Authority's cash and cash equivalents was as follows:

Cash and Cash Equivalents	2004	2003
Petty Cash	\$1,020	\$1,020
Checking, Savings, & Money Market Accounts	1,751,398	1,472,289
Money Market - Restricted For Severance Benefits	6,856	11,555
Cert. Of Deposit - Restricted For Retiree Health Ins.	392,279	365,402
Cert. Of Deposit - Restricted For Comp. Absences	128,386	123,359
Total	\$2,279,939	\$1,973,625

The bank balance at year end was \$2,360,748, of which \$200,000 was covered by federal depository insurance. The remaining balance was uninsured and uncollateralized.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Restricted Cash

The Authority has charged to the Department of Community Health, the vested portion of compensated absences and health insurance for retirees as of September 30th. The Authority holds, in a separate bank account, funds set aside for the payment of compensated absences. The use of these funds is restricted to payment of these liabilities as they come due.

B. Accounts Receivable

Accounts receivable represents amounts due from third party payers, patients, and others.

Cass County Mental Health And Addiction Services
Notes To The Financial Statements

C. Due From Other Governmental Units

Due from other governmental units as of September 30th, consists of the following:

Due From:	2004	2003
State of Michigan – OBRA	-	\$2,460
State of Michigan – Medicaid	\$37,800	37,800
LCC – Drug and Alcohol Prevention	28,470	41,327
Other Governmental Units	-	17,930
Totals	\$66,270	\$99,517

D. Prepaid Expenses

Prepaid expenses represent payments for insurance that will benefit future periods.

E. Capital Assets

A summary of changes in capital assets is as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Equipment and Furnishings	\$145,502	\$40,980	-	\$186,482
Computers	183,469	10,061	-	193,530
Vehicles	116,714	26,494	-	143,208
Sub-total	445,685	77,535	-	523,220
Accumulated Depreciation	(329,713)	(47,098)	-	(376,811)
Totals	\$115,972	\$30,437	-	\$146,409

Depreciation expense in the amount of \$46,577 was charged to Health and Welfare – Mental Health Program and an adjustment of \$521 to beginning accumulated depreciation was recorded as a prior period adjustment.

Cass County Mental Health And Addiction Services
Notes To The Financial Statements

F. Deferred Revenue

Deferred revenue represents amounts received in advance of the period in which they were earned as follows:

Deferred Revenue	2004	2003
General Fund Carryforward	\$2,105	\$7,990
Other	3,966	-
Totals	\$6,071	\$7,990

G. Due To Other Governmental Units

Due to other governmental units as of September 30th, consist of the following:

Due To	2004	2003
AIS / LADD Cost Settlement	\$147,700	\$223,672
Kalamazoo CMH - Medicaid	176,489	42,762
State of Michigan - Inpatient/Residential	180,685	123,139
Totals	\$504,874	\$389,573

H. Accrued Wages And Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes and related liabilities.

I. Program Advances

Program advances represents amounts received from other governmental units to help fund the drug and alcohol program services provided by the Authority. These funds were returned to each of the respective agencies during this fiscal year.

J. Accrued Health Insurance

During the year ended September 30, 1997, the Authority approved a plan that will pay health insurance for retirees for a limited time if certain conditions are met. As of September 30, 2004 and 2003, this liability is \$392,279 and \$406,884, respectively.

Cass County Mental Health And Addiction Services
Notes To The Financial Statements

K. Compensated Absences

VACATION

Employees are allowed to accumulate up to 200 hours of vacation time and carry the accumulated time into the future. Amounts accumulated are to be paid to the employee either when vacation time is actually taken or upon termination of employment.

SICK

Employees are allowed to accumulate hours of sick time and carry the accumulated time into the future. Hours accumulated over 360 will be paid to the employee on January 1st of each year at the rate of their hourly pay multiplied by half of the hours accumulated over 360. Hours accumulated from 1 - 360 are to be recognized as an expense when the employee actually uses the sick time. Upon termination of employment, all accumulated sick leave benefits are lost.

As of September 30, 2004 and 2003, the vacation/sick time liability is \$128,386 and \$121,071, respectively.

L. Operating Leases

Cass County Mental Health And Addiction Services has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the financial statements. The following is a schedule of future minimum lease payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, 2004:

Year Ending September 30 th	Minimum Payments
2005	\$69,584
2006	69,584
2007	69,584
2008	49,189
2009	49,189
Thereafter	75,173

M. Net Assets

Reserves

A portion of the net assets has been reserved equal to the net amount available in the Internal Service Fund (\$84,440 for fiscal year ended September 2003) which has been set aside to fund the net uninsured exposure of potential shortfalls of the Medicaid Specialty Supports and Services Contract and the State General Fund Contract revenues.

4. OTHER INFORMATION

A. Compliance Audits

All governmental grants are subject to a transactional and compliance audits by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures that may be disallowed by the granting agencies.

B. Fund Balance Reserves

In the fund level financial statements, a portion of the fund balance at September 30th has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

C. Deferred Compensation Plan

Employees of the Authority may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans With Respect To Service For State And Local Governments). The deferred compensation plan is available to all full time employees. Under the plan, employees may elect to defer a portion of their salaries and defer paying income taxes on the deferred portion until the withdrawal date.

Under the terms of an Internal Revenue Code Section 457 Plan, all deferred compensation and income attributable to the investment of the deferred compensation, until paid or made available to the employees or beneficiaries, are the property of the Authority subject only to the claims of the Authority's general creditors. As part of a fiduciary role, the Authority has an obligation of due care in selecting the third party administrator.

D. Risk Management

The Authority is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks, if any, have not exceeded commercial insurance coverage for the past three years.

The Authority also participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for the additional risk associated with the Managed Care Specialty Supports and Services Contract as further explained in the Subsequent Events note below. The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

Cass County Mental Health And Addiction Services
Notes To The Financial Statements

As a member of this pool, MMRMA is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds the Authority's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits are \$5,000,000 for liability and \$1,500,000 for vehicle physical damage. The total premium paid during the current year is \$107,490.

Internal Service Fund - the Authority authorized and established an Internal Service Fund. The cash in this fund is used to cover the risk of overspending the Managed Care Specialty Services Program (MCSSP) contract.

This contract provides for the use of Department of Community Health funding for the establishment of an Internal Service Fund, which is restricted to meet the expected future risk corridor requirements of the contract. Expenditures from the Internal Service Fund will occur when, in any one fiscal year, the Authority finds it necessary to expend more to provide services necessary to carry out the MCSSP contract requirements than revenue provided to the Authority by the contract.

E. Prior Period Adjustment

Prior period adjustments shown in the fund level financial statements in this report represent the adjustment to fund balance due to the following:

Adjustment	2004	2003
Removal of compensated absences liability	-	\$121,162
Removal of accrued health insurance payable	-	360,832
Adjustment To Beginning Accumulated Depreciation	\$521	-
Total Increase (Decrease) To Fund Balance	\$521	\$481,994

Cass County Mental Health And Addiction Services
Notes To The Financial Statements

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REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

CASS COUNTY MENTAL HEALTH AND ADDICTION SERVICES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GOVERNMENTAL FUNDS
FOR THE YEAR ENDING SEPTEMBER 30, 2004

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
REVENUES				
State Grants				
State General Fund - DCH Contract	\$1,549,768	\$1,543,758	\$1,547,462	\$3,704
Adult Benefit Waiver	-	219,068	\$215,681	(3,387)
Inpatient	743,211	511,856	515,009	3,153
Alzheimer's Grant	64,000	61,900	61,900	-
Title XX	72,164	4,756	4,756	-
Total State Grants	<u>2,429,143</u>	<u>2,341,338</u>	<u>2,344,808</u>	<u>3,470</u>
Federal Grants				
Substance Abuse	235,842	230,755	236,837	6,082
Wraparound Grant	-	13,000	13,000	-
PAS/ARR Grant	4,126	10,239	12,669	2,430
Total Federal Grants	<u>239,968</u>	<u>253,994</u>	<u>262,506</u>	<u>8,512</u>
Contributions - Local Units				
Cobo Hall	35,632	38,862	38,862	-
County Appropriations	195,000	195,000	195,000	-
Total Contributions - Local Units	<u>230,632</u>	<u>233,862</u>	<u>233,862</u>	<u>-</u>
Charges For Services				
Medicaid - State & Federal	5,428,937	5,557,541	5,493,555	(63,986)
Client And Third Party Pay	354,309	112,694	304,177	191,483
Total Charges For Services	<u>5,783,246</u>	<u>5,670,235</u>	<u>5,797,732</u>	<u>127,497</u>
Interest And Rents				
Interest	<u>33,026</u>	<u>19,100</u>	<u>18,647</u>	<u>(453)</u>
Other Revenue	<u>33,026</u>	<u>19,100</u>	<u>18,647</u>	<u>(453)</u>
Work Activity Center	102,077	54,472	73,064	18,592
Probate Court & Communications Group	22,364	25,500	7,500	(18,000)
Donations	63,485	48,688	39,415	(9,273)
Court Evaluations	16,780	11,605	9,495	(2,110)
HSCC Dues	3,491	18,500	18,500	-
St. Joe Crisis Res.	-	-	1,211	1,211
Job Coaching	94,394	45,948	27,869	(18,079)
Other	67,936	309,076	170,180	(138,896)
Total Other Revenue	<u>370,527</u>	<u>513,789</u>	<u>347,234</u>	<u>(166,555)</u>
Total Revenues	9,086,542	9,032,318	9,004,789	(27,529)

The notes to the financial statements are an integral part of this statement.

CASS COUNTY MENTAL HEALTH AND ADDICTION SERVICES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDING SEPTEMBER 30, 2004

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
EXPENDITURES				
Health & Welfare - Mental Health				
Personnel Costs	\$4,231,291	\$4,150,513	\$4,054,535	\$95,978
Operating Expenditures	4,791,147	4,658,088	4,714,985	(56,897)
Capital Outlay	46,880	84,879	77,535	7,344
Debt Service - Principal	-	16,000	16,000	-
Total Expenditures	9,069,318	8,909,480	8,863,055	46,425
Excess Of Revenues Over Expenditures	17,224	122,838	141,734	18,896
Other Financing Sources (Uses)				
Operating Transfers In - Internal Service Fund	-	-	85,173	85,173
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	17,224	122,838	226,907	104,069
Fund Balance, October 1	1,387,228	1,387,228	1,387,228	-
Prior Period Adjustment	-	-	521	521
Fund Balance, September 30	<u>\$1,404,452</u>	<u>\$1,510,066</u>	<u>\$1,614,656</u>	<u>\$104,590</u>

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

INDIVIDUAL FUND STATEMENTS

CASS COUNTY MENTAL HEALTH AND ADDICTION SERVICES
STATEMENT OF PERSONNEL EXPENDITURES
FOR THE YEARS ENDING SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
Personnel Expenditures		
Salaries And Wages	\$2,966,590	\$3,050,286
Fringe Benefits	<u>1,087,945</u>	<u>1,175,020</u>
Total Personnel Expenditures	<u><u>\$4,054,535</u></u>	<u><u>\$4,225,306</u></u>

The notes to the financial statements are an integral part of this statement.

CASS COUNTY MENTAL HEALTH AND ADDICTION SERVICES
STATEMENT OF OPERATING EXPENDITURES
FOR THE YEARS ENDING SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
Operating Expenditures		
Advertising	\$4,094	\$6,571
Affiliation Expense	-	101,062
Alzheimer's Grant	117,994	93,648
Board Per Diem	5,106	3,250
Building Lease	212,942	292,832
Building/Grounds Repairs & Maintenance	57,956	69,534
Client Activities	2,046	1,670
Client Wages	60,510	68,459
Conferences And Training	33,152	33,501
DD AIS Homes	1,427,475	1,427,475
Equipment Repairs & Maintenance	27,549	26,479
Food	19,390	23,037
Guardianship / Alternative	28,646	27,034
Inpatient / Residential	1,334,239	1,530,970
Insurance	70,880	142,585
Microfilming	17,623	18,233
Miscellaneous	2,636	4,634
Office Supplies	17,817	16,930
Operating Supplies	140,440	117,357
Postage	8,702	10,400
Professional & Contracted Services	608,674	287,159
Public Education	8,075	7,916
Small Equipment Purchases	62,021	9,462
Subscriptions & Dues	15,855	40,222
Telephone	49,596	55,830
Transportation - Client	114,398	113,458
Travel	85,870	81,570
T.A.P. Family Workers	108,414	284,785
Utilities	53,756	53,959
Vehicle Expense	19,129	15,055
	<u>\$4,714,985</u>	<u>\$4,965,077</u>
Total Operating Expenditures		

The notes to the financial statements are an integral part of this statement.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Cass County Mental Health And Addiction Services
Cassopolis, Michigan

We have audited the financial statements of the Cass County Mental Health And Addiction Services as of and for the year ended September 30, 2004, and have issued our report thereon dated December 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Cass County Mental Health And Addiction Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cass County Mental Health And Addiction Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated December 22, 2004.

This report is intended for the information of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 22, 2004



MANAGEMENT LETTER

Cass County Mental Health And Addiction Services
Cassopolis, Michigan

In planning and performing our audit of the financial statements for Cass County Mental Health and Addiction Services for the fiscal year ended September 30, 2004 we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated December 22, 2004 on the financial statements of Cass County Mental Health and Addiction Services.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 22, 2004

Cass County Mental Health And Addiction Services
Management Letter

Fraud Risk Assessment

In light of the wave of notorious frauds involving large organizations in the last few years, such as Enron, WorldCom, and HealthSouth, there may be a misperception that fraud affects only large organizations. However, fraud occurs in organizations of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. In fact, fraud may be a more significant problem for small organizations. In the 2002 survey of its members conducted by the Association of Certified Fraud Examiners (ACFE), the median loss per fraud occurrence reported from businesses with 100 or fewer employees was \$127,500, a proportionately larger loss than the \$97,000 median loss in organizations with 10,000 or more employees.

Whereas the highly publicized frauds at large public organizations like Enron, WorldCom, and HealthSouth involved fraudulent financial reporting, for small organizations, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and there are inadequate controls to prevent or detect the fraud. To address this risk, we recommend that Cass County Mental Health And Addiction Services (the Authority) perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Authority's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Authority, its environment, and its processes. The fraud risk assessment process should consider the Authority's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- Which individuals in the Authority have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate individuals with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of individuals with access to assets susceptible to misappropriation.
- What assets of the Authority are susceptible to misappropriation?

Cass County Mental Health And Addiction Services
Management Letter

- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious individuals or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers. Assets can also be stolen by unauthorized trading in securities.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running it through as an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.
- What factors might indicate that the Authority has a culture or environment that would enable management or individuals to rationalize committing fraud?

Once areas vulnerable to fraud have been identified, a review of the Authority's systems, procedures, and existing controls relating to the identified areas should be conducted. The Authority should consider what additional controls need to be implemented to reduce the risk of fraud. There are two basic types of controls—those that are designed to address specific types of fraud, and those that are more general in nature. General controls that reduce an individual's ability to commit fraud without detection include the following:

- Requiring Periodic Job Rotation and Mandatory Vacations. When an employee stays in the same position for a long period and has few absences, an opportunity exists for that employee to design and commit fraud schemes. Requiring key individuals to rotate jobs periodically or to transfer to different job functions is one way to address this fraud risk. Requiring all individuals to take an annual vacation, during which time others perform their job functions, also makes it more difficult for an employee who is committing fraud to continue concealing the fraud scheme.
- Preparing and Reviewing Monthly Financial Statements in a Timely Fashion. As previously mentioned, many frauds create accounting anomalies. Thus, one way to detect fraud on a timely basis is to review monthly financial statements and investigate unusual variances. If possible, these statements should include budget, prior period, and year-to-date amounts to help identify variances. Performing the review and investigation on a timely basis helps minimize the extent of potential fraud.

Cass County Mental Health And Addiction Services
Management Letter

- Implementing an Employee Hotline. Tips and complaints from fellow employees or vendors have enabled many organizations to discover occurrences of fraud. Anonymous telephone hotlines allow honest employees and vendors who may fear retaliation from fraud perpetrators to report unethical behavior without risking exposure.

Examples of controls to prevent or detect specific types of fraud include the following:

- Independent Checks of Work Performed. Independent checks test another employee's work, such as by having a second employee re-perform or test an employee's work.
- Separation of Duties. Separation of duties is one of the most effective controls to prevent or detect misappropriation of assets. When possible, incompatible duties should be performed by different employees. For example, the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets should be assigned to different people in the Authority to the extent possible.

When assessing the Authority's internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered. For example, instead of trying to prevent fraud, the Authority may choose to use more detective controls to ensure that the fraud is identified and corrected in a timely fashion. Because detective controls are performed after the original transaction occurs, they may be easier to implement and more cost effective.

We would be pleased to provide more information about performing a risk assessment or assist management in performing one.

Review Payroll Records for Unusual Matters

Performing a careful review of the payroll register (that is, the schedule showing the calculation of gross pay, deductions, and net pay) and payroll check register can highlight several types of payroll fraud. We recommend that an appropriate person periodically make such a review, being alert for unusual matters that might suggest fraud, such as the following:

- Duplicate names or addresses.
- Names of former employees.
- Math errors (which may indicate diversion of payroll or payroll taxes).
- Unusual pay rates or numbers of hours worked.
- Factors that may indicate ghost employees.